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**R62I0010
Student Financial Assistance
Fiscal 2018 Budget**

**Testimony of Dr. James D. Fielder, Jr., Secretary of Higher Education,
to the House Appropriations Subcommittee on Education and Economic Development and the
Senate Budget and Taxation Subcommittee on Education, Business and Administration**

March 2 & 6, 2017

Issues

- 1. The Secretary should comment on the number of FAFSAs received to date in fiscal 2017, and how much FAFSA filing may increase in fiscal 2018 and beyond due to recent federal changes. The Secretary should also comment on whether the secondary and postsecondary education sectors have done an adequate job informing students about the changing dates of FAFSA availability. – Pg. 10**

MHEC Response: With the implementation of the new federal changes to the Free Application for Federal Student Aid (FAFSA), MHEC performed a vigorous outreach campaign targeted around the “Early FAFSA.” That campaign consisted of the following:

- Creation of Early FAFSA one pagers - In June 2016, MHEC created an Early FAFSA one pager document that was sent by email to all high school districts specifically targeting the junior classes to inform them of the changes to the FAFSA;
- Creation of Early FAFSA posters - Posters were sent to every high school in the State and were made available at outreach events at both high schools and postsecondary institutions/events;
- Utilization of Social Media - MHEC continuously posted messages on social media regarding the Early FAFSA;
- Text Messaging and Emails - All subscribers of the new text messaging and email services were sent periodic messages reminding them of FAFSA changes, as well as continuous messages announcing when the FAFSA application would become available in October 1 until now;
- MDCAPS notifications - All students who completed a 2016-2017 FAFSA were sent an Early FAFSA notification informing them of the changes;
- Outreach Events - MHEC participated in outreach events and made presentations on the changes of Early FAFSA.

Also, it should be noted that the secondary and postsecondary institutions worked collectively to communicate the recent FAFSA changes. Many postsecondary institutions visited the secondary schools and facilitated FAFSA nights.

Due to the implementation of “Early FAFSA” and students being provided three additional months to complete the FAFSA by the March 1 deadline, MHEC anticipates an increase in FAFSA applications.

As of February 22, 2017, OSFA has received approximately 132,800 FAFSAs, an increase of 1.2 percent over the prior fiscal year, at 131,232 FAFSAs. With one week remaining for students to complete the FAFSA by the March 1 deadline, OSFA anticipates receiving approximately 8,000 additional FAFSA applications, totaling 142,800 FAFSAs for fiscal 2018.

2. The Secretary should comment on when MHEC was first aware it no longer needed the \$1.7 million deficiency in fiscal 2016 to cover all outstanding EEA commitments – Pg. 14

MHEC Response: At the end of fiscal 2015, the EEA program had a deficiency of approximately \$1.7 million.

Due to the deficiency in the EEA program from the prior year, MHEC was initially conservative with awarding in fiscal 2016 as it assumed that \$1.7 million from fiscal 2016 would be applied to the prior year deficiency. It was not until April 2016 that MHEC received the fund deficiency of \$1.7 million earmarked for the fiscal year 2015 deficiency in the EEA program.

However, due to the timing in which the deficiency was received and to the low acceptance rate in the EEA program in fiscal 2016, MHEC reverted \$4.6 million to the Need-Based Student Financial Assistance Fund (NBSFAF).

It should be noted that MHEC must rely on institutions to certify student eligibility in the EEA program. It is through that process that institutions have until July 1 to certify awards in order for MHEC to accurately assess the program's cancellation rate.

3. The Secretary should discuss how MHEC will make this change, how it will notify students and institutions of any changes, and how MHEC can better project costs for this program in the allowance. – Pg. 15

MHEC Response: The Edward T Conroy and Jean B. Cryor programs provide financial assistance for military and public safety personnel and their eligible dependents, and dependents of public and nonpublic school employees.

Since fiscal 2013, MHEC has relied on the NBSFAF to supplement funding in the Conroy program. Over that time, the number of awards made in the Conroy program has increased, leading to higher reimbursement costs to the institutions.

Section 18-601 of the Education Article of the Annotated Code of Maryland states that the maximum scholarship award amount is the equivalent annual tuition and mandatory fees of a resident undergraduate student at the 4-year public institutions of higher education within the University System of Maryland, other than the University of Maryland University College and University of Maryland, Baltimore, with the highest annual expenses for a full-time resident undergraduate; and the minimum award amount is the lesser of \$3,000, or the equivalent annual tuition and mandatory fees of a resident of the institution attended by the recipient, MHEC has begun discussion of adjusting the award amount to \$3,000 for all eligible students beginning with the 2017-2018 award year. This is because recent statutory changes to eligibility requirements have significantly increased the number of eligible recipients.

Currently, eligible recipients are receiving awards at the equivalent annual tuition and mandatory fees of a resident undergraduate student at the 4-year public institutions of higher education

within the University System of Maryland, other than the University of Maryland University College and University of Maryland, Baltimore, with the highest annual expenses for a full-time resident undergraduate. Even reducing the award amount to the equivalent annual tuition and mandatory fees of a resident of the institution attend by the recipient will not reduce funding levels enough to be within the programs' funding levels.

If any adjustments are made, they would be communicated directly to all current aid recipients through email and letter no later than the end of March this year. The correspondence will also include information on other avenues that can be explored for additional funding sources.

4. The Secretary should comment on why students would decline the transfer scholarship and whether there is projected to be an adequate fund balance to provide for \$0.5 million in awards in fiscal 2018. – Pg. 15

MHEC Response: In fiscal 2017, MHEC received approximately 600 applications for consideration for the 2+2 Transfer Scholarship program. Out of those applications, 132 awards were offered. The number of applications received and awards offered were lower than MHEC had anticipated.

MHEC attributes the modest number of eligible applicants to students not submitting all required documentation, such as verification that they received an Associate's degree.

For fiscal 2018, MHEC increased awareness of the scholarship program by making changes to its outreach communications and by extending the application deadline to August 15, 2017. The changes implemented in fiscal 2018 paid off as the number of applications received for the scholarship program increased from 618 to 1,546, an increase of 150 percent from the prior fiscal year. Out of the 1,546 applications received, MHEC was able to make awards to 275 students, leaving approximately 151 students on the waitlist.

Out of the 275 students, 5 declined the award, and 47 were canceled. The 5 students that declined the 2+2 Scholarship Award accounted for only 0.02 percent of the population, and may have declined the award due to the fact that they were no longer planning to attend a four-year institution or may be attending and out-of-state four-year institution.

For fiscal 2018, MHEC projects \$0.5 million in awards for the scholarship program that would be funded through the NBSFAF fund.

- 5. The Department of Legislative Services (DLS) recommends intent language that MHEC use the NBSFAF fund balance to provide for an increase in initial awarding in need-based aid of at least 2% in fiscal 2018. DLS also recommends language that restricts funding for the EEA program be used only for that program. The Secretary should comment on whether the next State Plan, currently under development, will give guidance for improving State support for student financial assistance. – Pg. 16**

MHEC Response: MHEC concurs with the Governor's Allowance.

The purpose of the NBSFAF fund is to allow money appropriated for student financial assistance programs that is not used in a fiscal year to be retained for need-based awards in subsequent fiscal years. This allows MHEC to utilize the NBSFAF to make need-based financial aid awards to students in other state financial aid programs.

Historically, MHEC has primarily utilized available funds in the NBSFAF fund to increase the appropriation in the Howard P. Rawlings Educational Excellence Awards program. As of fiscal 2017, MHEC has transferred more than \$20 million of the total \$25.8 million transferred into the EEA program.

For the next State Plan, MHEC has created three workgroups focused on three primary goals: Access, Innovation, and Student Success. The workgroups will be examining the State's financial aid programs and structure. The groups plan to examine many areas such as affordability, financial literacy, the State's need-based aid program, and other issues. Though still in the discussion phase, some of the areas that will be discussed regarding the State's need-based aid programs are identifying strategies to better align the programs with increases in tuition, funding levels, and increased flexibility for consideration of diverse enrollment options.

- 6. DLS recommends reducing Delegate Scholarships by \$303,620 so that this program increases to reflect no more than the projected 2% tuition increase from fall 2016 to fall 2017. – Pg. 17**

MHEC Response: MHEC concurs with this recommendation.

- 7. The Secretary should comment on whether MHEC has been able to determine why the initial EA grant acceptance rate doubled in fiscal 2017. The Secretary should also update the committees on the cancellation rate for EA awards in fiscal 2017 to date. – Pg. 19**

MHEC Response: In fiscal 2017, the Educational Assistance Grant (EAG) Award Program had an initial award acceptance rate of 65 percent, the highest in over 15 years. Awards were granted to students who had an Estimated Family Contribution (EFC) of \$2,000.

MHEC attributes the increase of the program's acceptance rate to the following implementation changes:

- Implementation of text messaging and a new email system - to date MHEC has over 16K subscribers who receive text or email communications regarding state financial aid;
- Increased Expected Family Contribution (EFC) - MHEC was able to reach students with a higher EFC when performing initial awarding than in the past, which in turn allowed

students who are usually on the waitlist until late October to receive awards in the first round of awarding;

- Modifications to the Award Notification - Minimized the amount of text on student notifications and provided detailed steps on how to accept the State aid award; and
- Customer Service - Initial awarding was performed at the end of March to a higher EFC cutoff than in the prior award year. In addition, OSFA responded to all EAG inquiries by email and lowered the overall response time to 48 hours.

Although the initial acceptance rate in the EA program was 65 percent, the acceptance rate has lowered to the current level of 41 percent. The decrease is a direct result of the required certification process performed by the institutions to verify student eligibility for the award. It is during this time that institutions will cancel awards for students who are not enrolled at the institutions, not enrolled full-time, not meeting satisfactory academic progress, or are no longer eligible due to a recalculation of students' demonstrated need.

Even with a 36.9 percent decrease, the acceptance rate in the EA program remains higher than in prior fiscal years, particularly considering that the fiscal 2016 the programs acceptance rate was only 29 percent. Currently, the EAG initial cancellation rate is at 58 percent.

8. The Secretary should comment on the need to make State and institutional financial aid more flexible, given the expected growth in enrollment of more first generation students who may not be aware of, or be able to meet, the March 1 deadline for most State aid programs. – Pg. 23

MHEC Response: Given the expected growth in enrollment of more first generation students, MHEC will continue to increase its outreach to ensure that first generation students and other students are aware of the State's financial aid scholarship and grant programs. MHEC is currently exploring other avenues to increase awareness of its State financial aid programs such as a marketing campaign that will specifically target first generation students and will deliver a message that college is attainable with the help of State financial aid resources; creating engaging posters that can be disseminated to all high schools for advertisement; and offering training to high school counselors specific to federal financial aid requirements, the FAFSA application process, and State financial aid requirements.

Although MHEC is increasing its outreach initiatives, a portion of students applying for financial aid may not meet the March 1 deadline for consideration of State aid programs. For those students, the Campus-Based EAG program can be of assistance, but at a lower rate than before due to an anticipated increase in the number of on-time FAFSAs.

Nevertheless, MHEC is optimistic that with the increased awareness of Early FAFSA and the implementation of the FAFSA Completion Campaign, over time students will complete the FAFSA earlier and the demand for funding to be made available to late applicants will decline.

Additionally, as MHEC continues to expand its outreach efforts to inform students of its State financial aid programs, it will continue to collaborate with the institutions and work hand in hand to showcase all types of financial aid (federal, institutional, and State) options available to students.

9. MHEC should discuss whether it thinks eligible students are aware of the GA program and how it will implement a prequalification system. – Pg. 26

MHEC Response: Beginning with fiscal 2018, MHEC eliminated the GA application and now identifies potential GA recipients through the FAFSA application based on family reported adjusted gross income being within 130 percent of the federal poverty levels.

To ensure that potential students were aware of this change, MHEC created an outreach campaign which was advertised through social media, posted on the MHEC website, emailed information to high school districts including a printable one-page document that could be disseminated to students, communicated with all postsecondary institutions, and sent widespread text messages and emails on periodic occasions to all subscribers. MHEC is confident that students are aware of this change given the outreach campaign that was implemented as well as the feedback that was received from high school counselors and nonprofit organizations.

Although MHEC has eliminated the application process, it will still continue to use its current qualification system. Therefore, students who meet the March 1 deadline will be considered as priority awards. After March 1, MHEC will continue to identify potential GA recipients until April 1 and allow students to submit all required documentation until July 1 and make awards from remaining funds.

10. The Secretary should comment on the potential for significant growth in GA awards in fiscal 2018 and beyond and what that means for EA grant funding. – Pg. 27

MHEC Response: The GA Program is awarded to the State's neediest students and provides financial assistance at 100 percent of the student's financial need. In fiscal 2017, approximately 1,570 students have been awarded and paid, representing a 6.4 percent increase over the 1,475 in prior year awards. The increased number for awards accepted and paid in the GAG program is the highest rate recorded in the last 15 years.

With the elimination of the GA application in fiscal 2018, MHEC is confident that there will be an increase of 5 to 10 percent in the number of GA awards made in comparison to the prior fiscal year.

Currently, for fiscal 2018, MHEC has identified approximately 6,100 potential eligible GA recipients. This is a significant increase of 246.2 percent over the prior year, when only 1,762 applications were completed by the March 1 priority deadline date. Out of the 6,100 students identified, approximately 269 students meet the general eligibility requirements of having the 2.5 GPA and completing a college prep course while enrolled in high school and are ready to be awarded, while the income requirement is being reviewed.

With an increase in the number of GA awards in fiscal 2018 and beyond, allocated funds for the EA program may be impacted if the difference cannot be supplemented by the NBSFAF fund. MHEC will continue to monitor any changes in the growth of the GA program and also explore other alternatives that can be implemented to prevent negative impact to the EA grant funding.

11. The Secretary should comment on the preparation for the shift toward the full-time change without the benefit of the consultant’s study, how MHEC is informing students they will need to enroll in 30 credits to receive the maximum award and whether MHEC will be prepared to implement the required changes to its awarding process for the 2018 – 2019 academic year. – Pg. 27

MHEC Response: As previously done through the outreach campaigns for Early FAFSA and the changes to the GA program, MHEC is prepared and confident that it will be able inform students about the changes in the EEA program.

MHEC has already developed an implementation plan of how it will communicate to both current and prospective students the new credit requirements that must be met in order to receive the maximum award amount. MHEC plans to do the following:

- Beginning in April 2017, MHEC will send notifications to all current award recipients informing them of the changes;
- MHEC and the Financial Aid Advisory Council (FAAC) will work collectively to ensure that all postsecondary institutions are aware of the changes;
- MHEC will create posters that will be disseminated to the financial aid offices at all postsecondary institutions advertising the credit requirement; and
- MHEC will utilize social media, the MHEC website, text messaging, and emails to continuously advertise the change.

Also, MDCAPS will be updated with the required system enhancements in time for awarding to occur for the 2018-2019 award year.

12. The Secretary should comment on what policy discussions should occur across the P-20 continuum in the 2017 interim to determine how to best allocate State support to ensure that Maryland students find both access and success in postsecondary education. The Secretary should also comment on MHEC’s financial aid research agenda in the 2017 interim. – Pg. 31

MHEC Response: MHEC currently participates in several efforts designed to improve college readiness at the K-12 level. MHEC is working to identify ways to support community colleges in the development of transitions courses, in collaboration with local educational agencies, to ensure that high school students are ready for college. MHEC also supports the USM First in the World grant, which expands remediation pathways in mathematics. MHEC continues to bring its research results and other information to these discussions among P-20 stakeholders.

In addition, an important new study on financial aid has demonstrated that most financial aid programs and practices are tailored for “traditional” students: unmarried recent high school graduates who are the dependents of two married parents. These programs often fail to meet the needs of other kinds of students: children of divorced parents, especially when one parent does not contribute to education; students who live at home but provide significant financial support to their families through wages; independent students; students who are heads of families. MHEC will review its own programs and policies to ensure that all students have access to state aid programs, and encourage discussion among colleges and universities and other stakeholders to consider their own policies and practices in the same way.

MHEC's research agenda, with respect to financial aid, for the 2017 legislative interim includes efforts to answer the following research questions:

- How much debt do students accumulate over multiple years of enrollment?
- What is the relationship of debt to persistence and to graduation?
- What are the educational outcomes (retention, graduation) for students receiving different state financial aid awards?
- What are the educational outcomes for Pell Grant recipients?
- How do the students who accept financial aid awards compare to the students who do not accept them? Can any patterns be identified?
- How does Maryland's approach to financing higher education through appropriations and financial aid compare to that of competitor states?

Each of these questions is designed to shed light on the overarching question about financial aid: How can funding appropriated for Student Financial Assistance be optimized to encourage the best results for Maryland?

13. The Secretary should comment on how MHEC can ensure Maryland institutions make available timely and accurate information concerning their costs of enrollment. Pg. 32

MHEC Response: MHEC will continue to work with the institutions to ensure that the information they provide on their websites, and is linked on the MHEC website, is current and complete. We have been in direct contact with all institutions as well as the Presidents and Vice Presidents of Finance and Administration at both Coppin State University and Morgan State University to assist them with updating their calculators.

Recommended Actions

1. Add the following language: - Pgs. 3 & 33

It is the intent of the General Assembly that the Maryland Higher Education Commission use its Need-Based Financial Assistance Fund's fund balance to provide for an increase of at least 2.0% in initial awarding of State support for total need-based student financial assistance in fiscal 2018 so that State support matches the expected increase in tuition at public four-year institutions.

Explanation: It is the intent of the General Assembly that State support for need-based student financial assistance should grow commensurate with the expected increase in tuition at public four-year institutions. The Maryland Higher Education Commission can use the fund balance from the Need-Based Student Financial Assistance Fund to augment the fiscal 2018 allowance to achieve this goal. This would require a transfer of approximately \$0.6 million.

MHEC Response: MHEC concurs with the Governor's Allowance.

2. Add the following language to the general fund appropriation: - Pgs. 3 & 33

, provided that funds appropriated for Education Excellence Awards may not be transferred to any other program or purpose.

Explanation: The language restricts funds for Education Excellence Awards to that purpose. The annual program carries a waiting list in excess of 10,000 students. By statute, unspent funds will be deposited in the Need-Based Student Financial Assistance Fund.

MHEC Response: MHEC concurs with the recommended action.

- | | <u>Amount
Reduction</u> |
|--|---------------------------------------|
| 3. Reduce general funds for Delegate Scholarships so that funding grows no more than the expected increase in tuition, 2%. | \$303,620 GF - Pgs. 3 & 33 |

Total General Fund Reductions	\$ 303,620
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MHEC Response: MHEC concurs with the recommended action.